

Abundant Corn Harvest . . . Rail Service Update . . . Peanut Consumption . . . Indonesian Adversity . . . Uruguay Round Agreement

Large Supplies, Sluggish Export Prospects Pressure Corn Prices

U.S. corn farmers, now wrapping up the second-largest harvest in history, face weak prices in 1998/99. The large increase in corn supply is expected to outstrip the rise in demand, keeping downward pressure on prices. Although domestic use of corn will rise to a new record, only a small recovery in U.S. exports is likely. Global import levels are weak, despite low prices, because of economic and financial problems in several regions of the world. U.S. corn exports will remain comparatively low, although forecast to rally from the depressed performance of 1997/98 as competitor shipments decline.

The Western Rail Crisis: One Year Later

Rail service in the western U.S. appears to have improved substantially following a series of service failures which snarled traffic beginning in the summer of 1997. Steps taken by Union Pacific Railroad in response to last year's crisis, although slowing recovery in the short term, will add to overall rail capacity in the region for many years to come. Recent improvements should allow carriers to handle the 1998 grain and soybean harvest, which promises to be the largest in history. Bumper crops of grain and soybeans have combined with large carryin stocks to push grain storage capacity beyond its limits in many regions, but this fall's ground piles of grain are not the result of transportation snags. The large crops, worldwide economic problems, and increased competition have reduced demand for U.S. grain, particularly at Pacific Northwest ports.

U.S. Peanut Consumption Rebounds

Before the recent rebound in domestic food use of U.S.-grown peanuts, demand had weakened in the early 1990's. Stagnant commercial peanut use, rapidly



falling government purchases, and rapidly rising volumes of imported peanuts and products had combined to reduce demand. But industry promotion efforts launched in 1996 have paid off, and while it is difficult to measure the impact, U.S. edible peanut consumption rose nearly 2 percent in 1997/98, to 2.17 billion pounds. Lower peanut prices and introduction of new products may also have helped boost consumption. While the issue of peanut allergies may cut into U.S. peanut consumption in the short run, the most immediate challenge for the U.S. peanut industry may be the recent appearance of peanut butter/paste imports from Mexico.

Indonesia's Crisis: Implications for Agriculture

Triggered by a regional financial crisis that began in Thailand in July 1997, Indonesia's sudden economic collapse in 1997-98 had several contributing factors, including a rapid increase in short-term, private debt and a weakly regulated banking system. The economic chaos has cut U.S. agricultural exports to Indonesia

by more than half, from \$639 million in January-September 1996 to \$312 million during the same period in 1998. By itself, Indonesia is not a large market for U.S. agricultural exports, which totaled \$57.2 billion in calendar year 1997. However, Indonesia and its ailing Southeast Asian neighbors, together with South Korea, accounted for 16 percent of the increase in U.S. agricultural exports from 1990 to 1996.

Uruguay Round Agreement on Agriculture: The Record to Date

During the 3 years since initial implementation of the Uruguay Round Agreement on Agriculture (URAA), the record is mixed. The Uruguay Round's overall impact on agricultural trade can be considered positive in moving toward several key goals, including reduction of agricultural export subsidies, new rules for agricultural import policy, and disciplines for sanitary and phytosanitary trade measures. The URAA has also encouraged a shift in domestic agricultural policies away from practices with the largest potential to affect production, and therefore, to affect trade flows. However, significant reductions in most agricultural tariffs will have to await a future round of negotiations.

The 1997 Tax Law: New Incentives For Farmers To Invest for Retirement

Recent changes under the Taxpayer Relief Act of 1997 offer new choices and opportunities for retirement planning at a time when farmers have a number of incentives for diversifying total assets beyond the farm. The tax law changes for Individual Retirement Accounts present new tax benefits, while lower capital gains tax rates reinforce farmers' traditional inclination to reinvest in farm assets to provide income at retirement. Although incentives in the new tax law are likely to increase overall investment, they will likely generate relatively little additional diversification into off-farm assets, given farmers' historical preferences.